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IN THE

Supreme Court of the United States

OCTOBER TERM, 1995

LUCIANO PEREGO AND TAPEMATIC S.P.A.,

Petitioners,

—v.—

KING INSTRUMENT CORPORATION,

Respondent.

ON PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

PETITIONERS' REPLY MEMORANDUM

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INTRODUCTION

In the decision below, the Federal Circuit decided a major question of patent law—can economic losses not caused by patent infringement be awarded as damages for patent infringement? In answering yes to this question, the Federal Circuit effectively extended the scope of patents, granting patentees monopoly rights over goods not covered by their patents. Petitioners Luciano Perego and Tapematic S.p.A. (collectively "Tapematic") contend that this result cannot be squared with Congress's intent in the Patent Act or with the important public policies embodied in the antitrust laws. The Federal Circuit's decision will have a far reaching economic

impact because of the potential it creates for ruinous and unforeseeable damages, and for deterring legitimate competition. As stated by former Chief Judge Nies in her dissent, [c]larification from higher authority is needed on the scope of protection afforded by a patent and the meaning of patent infringement 'damages'." App 38a. Thus this case involves a compelling question of law which should be decided by this Court. App. 71a.

RESPONSE TO NEW ISSUES RAISED BY KING

In opposing certiorari, King Instrument Corp. ("King") correctly observes that this Court must determine whether this issue is sufficiently important to merit review. Brief in Opposition at 5. King attempts to play down the significance of this case by recapitulating the argument already set out by the majority in *Perego*—an argument that rests on misreading and ignoring both the guiding case law of this Court and a long line of decisions of lower courts. King also attempts to remedy the failure of the decision below to recognize the significance of the entire market value rule by suggesting a watered-down version of the rule. Finally, King relies on *Rite-Hite v. Kelley Co.*, 56 F.3d 1538 (Fed. Cir. 1995) (*in banc*), *cert. denied*, 116 S. Ct. 184 (1995). To the extent these arguments raise new issues, they are addressed below.

1. The Federal Circuit's Decision is Contrary to This Court's Decisions Regarding Patent Damages

In opposing certiorari, King asserts that the decision below is consistent with "this Court's precedence [*sic*]." Brief in Opposition at 6. Tapematic relies on a line of cases from this Court that extends back to the middle of the last century for the proposition that a patentee may recover damages for lost sales of products only when the patentee markets the device claimed in the patent. *See Crosby Steam-Gage & Valve Co. v.*

Consolidated Safety-Valve Co., 141 U.S. 441, 452-453 (1891); *Yale Lock Mfg. Co. v. Sargent*, 117 U.S. 536, 552 (1886); *Seymour v. McCormick*, 57 U.S. 480, 489 (1853). This rule serves to assure that the patentee does not recover based solely on goods not covered by the patent. The rule has been consistently applied in the lower courts, as shown by the cases cited in the Petition at 13, until the Federal Circuit's recent departure. King does not argue otherwise.

It is not correct, as King asserts (Brief in Opposition at 13-14), that the Supreme Court case law on which Tapematic relies did not address the issue presented here. The Court in each of these cases gave close consideration to the question of patent damages, and in each case made clear that a patentee may only recover its lost profits when it "puts on the market goods embodying the [patented] invention." *Crosby Steam-Gage & Valve Co.*, 141 U.S. at 452. *Accord Yale Lock Mfg. Co.*, 117 U.S. at 552-553; *Seymour v. McCormick*, 57 U.S. at 489.

It is also not correct that Tapematic was "deceptive" in its presentation of these authorities. *See* Brief in Opposition at 12. In the Petition at 11, Tapematic stated the following:

> The Court explained in *Crosby Steam Gage & Valve Co. v. Consolidated Safety-Valve Co.*, 141 U.S. at 452, that to obtain as damages for infringement lost profits, it is a "material fact to be shown by the plaintiff that it was putting on the market goods embodying the [patented] invention."

Tapematic's quotation from *Crosby* is completely accurate. It is King that has presented this Court with an altered version of Tapematic's quotation and attempted to pass it off as Tapematic's deception. King's altered version of Tapematic's quote is as follows:

> [i]t is a material fact to be shown by the plaintiff that it was putting on the market goods embodying the [patented] invention . . . .

Brief in Opposition at 13 (emphasis supplied by King). Thus King presents as Tapematic's quote the language appearing in bold face which was not in the Court's original opinion—and was not in Tapematic's quote. King then proceeds to present as accurate the following version of the *Crosby* quotation:

> [i]f there had been an award of damages [for the loss [*sic*] profits of the plaintiff], . . . it would have been a material fact to be shown . . . but, as the plaintiff recovers only the profits made by the defendant in using [the patented invention], it is immaterial whether or not the plaintiff itself employed that invention.

Brief in Opposition at 13. King's version of the *Crosby* quote removes key language detrimental to King and replaces it with ellipses. King's version omits the phrase "by the plaintiff that it was putting on the market goods embodying the [patented] invention." Thus the Court's language omitted by King clearly shows that the patentee could recover *its* lost profits as damages only when marketing the patented goods.

King attempts to dismiss *Seymour* and *Crosby* on the grounds that they were "decided under the old equitable rule wherein defendant's profits could be awarded." Brief in Opposition at 14. This assertion is incorrect. The above excerpt from *Crosby*—once it is accurately quoted—clearly delineates the distinction between damages to the patentee and profits of the infringer, and states that to recover its own lost profits as damages, the patentee must show that it was practicing the invention. *Seymour* was decided on appeal from a jury trial in a court of law—not equity—and thus involved interpretation of "damages" rather than the equitable account-

ing rule.[1] 57 U.S. at 489 ("the Patent Act of 1836 confines the jury to the assessment of 'actual damages' "). *See generally Birdsall v. Coolidge*, 93 U.S. 64, 68-69 (1876) ("Prior to the passage of the act of the 8th of July, 1870, two remedies were open to the owner of a patent whose rights had been infringed, and he had his election between the two: he might proceed in equity and recover the gains and profits which the infringer had made . . . or [he] might sue at law, in which case he would be entitled to recover, as damages, compensation for the pecuniary injury he suffered by the infringement, without regard to the question of whether the defendant had gained or lost by his unlawful acts.").

Aside from its attacks on Tapematic, King devotes its Brief in Opposition largely to recapitulating the arguments set forth by the *Perego* majority. Like the majority, King relies on the unquestioned right of a patent owner to "damages adequate to compensate for the infringement." Brief in Opposition at 7-9 (quoting 35 U.S.C. § 284). This, however, begs the question here—whether the patent owner may recover not only damages caused by infringement, but also for losses caused simply by competition from the infringer.

Similarly, King follows the majority in relying on the right of the patent owner to exclude others from practicing the invention. Brief in Opposition at 15-16. Recognition of the existence of this right, however, does nothing to establish the scope of remedy. Finally, King recycles the Federal Circuit's

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[1] The Court's references to the "profit of the infringer" and "defendant's profits" at 57 U.S. 489, 490 are in response to the district court's instruction that the jury should consider the sales and profits of the defendants "to approximate to something like the actual loss that the patentee sustains." *Id.* at 487-88. The *Seymour* court found that under certain "peculiar circumstances," the defendant's profits could be used to approximate the patentee's loss, even though infringer's "profits" are not directly awarded. *Id.* at 489-90. This method of ascertaining damages could apply only when the patentee markets the patented product, "the patentee being himself able to supply the whole demand at his own price." *Id.*

flawed public policy arguments. *Id.* at 17-19. As Judge Nies explained in her dissent, the majority erred in substituting a remedy based on its own "view of the public interest" for "the remedy Congress has provided of damages calculated as a reasonable royalty." Pet. App. 23a.

2. The Federal Circuit's Decision is Contrary to the Entire Market Value Rule

In the Petition, Tapematic explained that the entire market value rule, long approved by this Court, assures that when a device combines both patented and unpatented elements, the patent owner may recover only losses fairly attributable to infringement of the patented element. Petition at 15-16. King concedes that in such situations, the patent owner may recover lost profits on the entire machine only if the owner establishes "that the patented feature accounts for some or all of the demand for the product." Brief in Opposition at 20 (quoting Petition at 16).

As Judge Nies pointed out, "the panel majority did not attempt to apply the entire market value rule" in this case. Pet. App. 29a. The majority's refusal to either apply the rule or attempt to answer the vigorous argument of Judge Nies is particularly striking in view of the fact that the Federal Circuit had recently "reaffirmed the viability of the entire market value rule" in *Rite-Hite v. Kelley*, 56 F.3d 1538 (Fed. Cir. 1995) (*in banc*). Pet. App. 29a. In short, the decision below not only tacitly rejected this Court's guidance as to the entire market value rule, but also ignored the Federal Circuit's own recent application of the rule in the *Rite-Hite* case on which King relies.

King attempts to remedy this legal error by supplying its own application of the entire market value rule. Brief in Opposition at 21-22. Essentially, King argues that, although the district court did not even mention the entire market value rule, the district court's factual findings amount to the showing required by the rule. *Id.* This argument is incorrect.

As explained in the Petition, the patent at issue here was for a tape splicer assembly, which was an element of a reel changer, which in turn was an optional accessory to a tape loader. Petition at 3. It was not, as King implies, a patent covering the reel changer (which it refers to as the "dual pancake feature"). Brief in Opposition at 3, 21-22. King argues that Tapematic's reel changer caused some lost sales of King's tape loader (which did not use or contain a reel changer). Brief in Opposition at 21-22. The district court agreed in part with King on this point. Pet. App. 65a.

The district court never addressed, however, the issue presented by the entire market value rule: whether the tape splicer assembly (as opposed to the reel changer) accounted for any part of consumer demand for the entire tape loading machine upon which lost profits were awarded.[2] King's argument on this point conflates the reel changer and the tape splicer assembly. It refers repeatedly to "the infringing reel changer," Brief in Opposition at 2, 21, 22, although it also admits that the infringing device was actually a tape splicing assembly. *Id.* at 2. King simply assumes that all demand for the tape loader can be traced to the reel changer which in turn can be traced to the tape splicer assembly—an assumption that finds no support in the district court's findings. In other words, King attempts to substitute its own rank speculation for the showing legally required by the entire market value rule.

King's efforts to extend the scope of its patent (symbolized by its references to "the infringing reel changer") are an apt illustration of the dangers of allowing the decision below to

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[2] King suggests by selective quotation and editing that the district court found that the splicing assembly was a feature with "a profound effect on the speed and efficiency of the machine." Brief in Opposition at 21 (quoting Pet. App. 50a). In fact, the district court was referring generally to the reel changer's ability to switch from an empty reel of magnetic tape to a full one without stopping the machine—not to any advantage of the patented tape splicing assembly. Pet. App. 50a.

stand without further consideration. Indeed, King's own hypothetical (analogizing its tape splicer patent to a patent on four-wheel drive transmissions, Brief in Opposition at 22), slightly modified, gives a fair indication of the enormous implications of the Federal Circuit's new rule.

Although King's position cannot fairly be compared to a holder of a patent covering an entire transmission, King is situated much like the holder of a valve patent that is infringed when the valve is used as one of many elements in four-wheel drive transmissions. In such circumstances, King would refer to "the infringing transmission" and claim damages based not only on lost transmission sales but also (as its hypothetical indicates) lost sales of entire vehicles. The economic consequences of permitting recovery of such lost profits damages in these circumstances would be staggering.

3. A Denial of Certiorari in Another Case Has No Precedential Weight

As Tapematic pointed out in its Petition, the decision below was based in part on the rule announced in *Rite-Hite Corp. v. Kelley*, a case in which this Court declined to grant certiorari. King relies in large part on this Court's refusal to review *Rite-Hite*, but this reliance is misplaced. First, this decision is even more problematic than *Rite-Hite*, since the court in *Perego* ignored the entire market value rule and permitted recovery of lost profits when the patentee did not sell a competing device. Petition at 21-23. Second, it is firmly established that a denial of certiorari has no precedential weight. *See, e.g.*, *Maryland v. Baltimore Radio Show*, 338 U.S. 912, 919 (1950).

It may be, as Judge Nies suggested, that "in denying certiorari, the Supreme Court had not been made aware of the significance of the fundamental change in patent rights made by the *Rite-Hite* decision." Petition at 71a. In any event, the decision as to certiorari in *Rite-Hite* is not controlling here. This case urgently requires review because of the importance of the issue presented.

CONCLUSION

The petition for certiorari should be granted.

Respectfully submitted,

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